

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /083 W

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R 061514Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7763

INFO AMEMBASSY BERLIN

USMISSION USBERLIN

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

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E.O. 11652: N/A

TAGS: PINT, GW

SUBJECT: THE POLITICS OF TAX REFORM

REF: BONN 2015

SUMMARY: THE IMPLEMENTATION OF THE TAX REFORM LEGISLATION WHICH RESULTED IN MANY WAGE EARNERS FINDING MORE (RATHER THAN LESS) OF THEIR PAYCHECK WITHHELD FOR TAXES HAS CREATED A POLITICAL STORM IN THE FEDERAL REPUBLIC. WHAT WAS TO BE A SHOWPIECE OF REFORM LEGISLATION AND A MAJOR COMPONENT OF THE GOVERNMENT'S EFFORTS TO STIMULATE THE ECONOMY HAS BECOME A POLITICAL LIABILITY. CHANCELLOR SCHMIDT AND FINANCE MINISTER APEL ARE FRANTICALLY TRYING TO EXPLAIN THE PROBLEM AWAY BUT THE DAMAGE IS

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ALREADY DONE AND IS LIKELY TO HURT THE SPD IN THE FORTH-COMING LAENDER-ELECTIONS. END SUMMARY

1. WHAT HAPPENED IS SIMPLE IN POLITICAL TERMS EVEN IF THE TECHNICAL REASONS BEHIND IT ARE COMPLEX. ON THE FIRST PAYDAY IN JANUARY, AFTER THE NEW TAX LEGISLATION CAME INTO EFFECT, MANY PEOPLE WHO THOUGHT THEY WOULD BE PAYING LESS TAXES FOUND THAT THEY HAD MORE MONEY WITHHELD FOR TAXES THAN BEFORE. THE PRESS, PARTICULARLY THE ANTI-GOVERNMENT SPRINGER PAPERS HAD A HEY-DAY WITH THE PUBLIC REACTION. THE CDU/CSU, ALTHOUGH THEY VOTED FOR THE COMPROMISE TAX REFORM IN THE BUNDESTAG, WERE QUICK TO MAKE POLITICAL CAPITAL OUT OF THE GOVERNMENT'S SITUATION ("POISON TO THE GOVERNMENT'S EFFORTS TO STIMULATE THE ECONOMY -- PROOF OF BONN'S INCOMPETENCE").

2. THE GOVERNMENT ATTEMPTED TO EXPLAIN THAT MANY PEOPLE BECAUSE OF UNFAMILIARITY WITH THE NEW PROCEDURES WERE HAVING TOO MUCH WITHHELD FROM THEIR PAYCHECKS AND WOULD RECEIVE TAX REFUNDS AT THE END OF THE YEAR. THE FINANCE MINISTRY ALSO CLAIMED THAT WHEN SEPARATE CHILDREN SUPPORT PAYMENTS WERE CONSIDERED ALONG WITH THE NEW TAX RATES ALMOST TWENTY MILLION WAGE EARNERS WOULD BENEFIT FROM THE REFORM. ALL THIS SAID, HOWEVER, THE DISAPPOINTMENT AND VOCAL DISSATISFACTION OF A LARGE SEGMENT OF VOTERS (INCLUDING MANY SPD MEMBERS) MUST BE VIEWED WITH CONCERN BY SPD CANDIDATES IN THE FORTHCOMING ELECTIONS.

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FM AMEMBASSY BONN

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INFO AMEMBASSY BERLIN

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3. THAT SCHMIDT AND APEL DID NOT FORESEE THESE PROBLEMS AND LAUNCH A PROGRAM TO EXPLAIN THE NEW SYSTEM IN ADVANCE OF THE IMPLEMENTATION MUST BE VIEWED AS A POLITICAL BLUNDER. IT APPEARS THAT THEY WERE SO CONCERNED WITH THE MACRO-ECONOMIC EFFECTS TO STIMULATE THE ECONOMY AND THE REDISTRIBUTION OF INCOME THAT THEY DID NOT PAY ATTENTION TO THE POLITICAL SIGNIFICANCE OF THE IMPLEMENTORY REGULATIONS. THE RESULT IS THAT SCHMIDT PROTEGE APEL HAS HAD HIS "WUNDERKIND" IMAGE TARNISHED AND THAT IN LAENDER ELECTIONS SUCH AS BERLIN, WHERE THE SPD WILL BE LUCKY TO SQUEAK BY, THE GOVERNMENT'S MISHANDLING OF THE TAX REFORM ISSUE WILL BE AN ADDITIONAL HANDICAP.
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4. APEL HAS MADE IT CLEAR THAT HE DOES NOT INTEND TO LET THE POLITICAL FUROR LEAD HIM IN THE DIRECTION OF ANY FURTHER TAX REDUCTIONS. IN AN INTERVIEW WITH "DIE ZEIT" - APEL HAS SAID THAT HE IS "IN THE PROCESS OF BECOMING THE MOST UNPOPULAR MAN IN THE FRG". (HE REMARKED RATHER WISTFULLY THAT THE MAJORITY OF THE PEOPLE ARE BEGINNING TO REALIZE THE ADVANTAGES OF THE REFORM -- BUT "IT IS A SILENT MAJORITY". HE DID SAY, HOWEVER, THAT HE "DOES NOT EXCLUDE THE POSSIBILITY OF A BONUS" FOR THOSE HAVING TOO MUCH WITHHELD FROM THEIR PAYCHECKS -- BUT THAT "THIS IS THE ONLY POINT HE WOULD

CONSIDER DISCUSSING".
HILLENBRAND

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